Proprietary
INDUSTRIES INC.

2005 Annual Report

December 20, 2005

To our valued Shareholders:

I am pleased to present the Company's audited Financial Statements and Management Discussion and Analysis for the year ended September 30, 2005.

Fiscal 2005 started out with the successful take-over bid for Proprietary by PPI Acquisition Corp. Since the completion of the take-over, management of Proprietary has focused its efforts in two areas – resolving its outstanding litigation and deploying the Company's cash reserves into income generating investments.

In 2005, thirteen lawsuits have been resolved or discontinued. We have made progress in the litigation that remains ongoing. For example, in November the Company collected \$1.69 million in judgment proceeds from offshore entities. Trial dates have been set for early 2006 and we expect additional dates to be set in the near future.

In 2003 and 2004, critical steps were taken to free the Company from a burdensome debt load. The Company is now virtually debt-free. In 2005, Proprietary began investigating various investment opportunities. To date, we have extended \$11.8 million in loans with terms of less than 2 years, and are continuing our efforts to find appropriate long-term opportunities.

At the Company's Annual Meeting in February 2005, Patrick Lavelle and William Ostrander stepped down from the Board of Directors. We at Proprietary appreciate the contributions made by both Patrick and Bill in resolving the company's difficulties. Robert Cudney and Frank Davis joined Steve Akerfeldt and Murray Sinclair as members of the Board. In May 2005, I accepted an invitation to join the Board as a Director and was pleased to be appointed President and CEO of Proprietary.

In fiscal 2006, we will continue our efforts to recover any damages or monies owing to the Company and to evaluate new investment and lending opportunities in order to earn greater returns on our capital.

It has been a pleasure to serve as an officer and director on your behalf.

Yours truly,

On behalf of the Board of Directors,

GS Garner

Graham S. Garner
President & Chief Executive Officer

PROPRIETARY INDUSTRIES INC.
Management Discussion and Analysis
For the Year Ended September 30, 2005

This Management Discussion and Analysis was prepared as of December 14, 2005 and should be read in conjunction with the Consolidated Financial Statements and Notes thereto, which have been prepared in accordance with Canadian generally accepted accounting principles. Additional information relating to Proprietary Industries Inc. is available on SEDAR at http://www.sedar.com. This Management Discussion and Analysis may contain forward looking statements and information. Forward looking statements are statements that are not historical fact and are generally identified by words such as "believe", "expects", "projects", "could" or similar words suggesting future outcomes. By their nature, forward-looking statements and information involve assumptions, inherent risks and uncertainties, many of which are difficult to predict and are usually beyond the control of management, that could cause actual results to be materially different from those expressed by these forward looking statements and information. Risks and uncertainties include, but are not limited to, risk with respect to general economic conditions, property values, regulations and taxes, civil unrest, corporate restructuring and related costs, capital and operating expenses, pricing and availability of financing, and exchange rate fluctuations. Readers are cautioned not to place undue reliance on these forward looking statements and information.

The Company does not undertake to update or re-issue the forward-looking statements and information that may be contained herein, whether as a result of new information, future events or otherwise.

OVERVIEW

Proprietary Industries Inc. ("Proprietary" or the "Company") is a principal merchant bank, with loans to and investments in various businesses. Its operations include: investing, managing, purchasing, selling, owning and lending. The Company is listed on the Toronto Stock Exchange under the trading symbol "PPI".

In fiscal 2005 the Company continued with its objectives of:

- disposal of those assets/investments which had negative cash flows and/or no return. At present the only two such assets of the Company which are generating an immaterial negative cash flow are two condominium units. The Company anticipates that these two units will be sold within the next six months. The Company also sold a significant portion of its shares in other public companies, generating net proceeds of approximately $2,723,000. The investments represented by these shares had not produced any reasonable returns to the Company for a number of years. It is the Company's intention to sell the remaining shares it holds in public companies, assuming the offer prices are considered reasonable.
- searching for investment or lending opportunities in order to generate a return on its resources. There is currently considerable cash available in the marketplace and therefore lending is extremely competitive and it is difficult to find good investment opportunities. Notwithstanding these conditions, the Company generated in excess of $11.3 million in loans at interest rates ranging from 8.5% to 12.5%. Proprietary also investigated a number of other lending and investment opportunities but declined these opportunities on the basis of risk and/or other factors.
- pursuing those funds which the Company feels it is due, be it through the courts or other means. In fiscal 2005 the Company collected in excess of $1.4 million in notes receivable and interest arrears thereon. Further it received court judgments for approximately $1.88 million, of which the Company has collected $1.69 million, as more fully described in note 20 to the Company's September 30, 2005 consolidated financial statements.

For the year ended September 30, 2005, the Company had a net loss of $2,960,485. Most of this loss can be attributed to: (a) the costs the Company incurred in pursuing and defending law suits, and (b) the $925,000 in costs incurred by the Company as a result of a take-over bid. Proprietary incurred legal and forensic accounting expenses of approximately $4 million in fiscal 2005. If these expenses are netted by the aforementioned court judgments, the net expense is approximately $2.1 million. The expenses related to the lawsuits the Company is involved in are difficult to project, but the Company is of the view the lawsuits must be pursued/defended in order to recover/protect shareholder value. While the Company is seeking new revenue generating investments, until such time as it is successful the Company's revenues will be limited to interest received from investing its cash reserves in interest bearing instruments and short-term loans receivable.

It is very difficult to compare in a meaningful manner the Company's consolidated operating results over the last three years, as the Company has gone through a restructuring of its asset base, debt obligations, and operating activities. As such: (i) most of its prior years' revenues and operating costs/expenses are now reflected in discontinued operations, and (ii) there have been a significant number of different non-recurring items in each year that do not appear in the other comparative years. The table below reflects the reclassification of fiscal 2004 and 2003 operations into discontinued operations based upon fiscal 2005 continuing operations.

	Year ended September 30, 2005	2004	2003
Revenues	$ 4,926,042	$ 12,290,437	$ 2,881,764
General and administrative expenses	7,681,035	6,580,696	6,339,871
Other expenses	29,698	60,693	1,842,100
Interest	21,148	389,232	1,772,414
Amortization and depreciation	110,169	316,232	430,075
Write-downs	175,800	3,950,050	1,827,541
Recoveries	(594,753)	(5,423,455)	(837,119)
Total expenses	$ 7,423,097	$ 5,873,448	$ 11,374,882
Net income (loss)	$ (2,960,485)	$ 6,867,752	$ (18,882,712)
- per share - basic	(0.05)	0.12	(0.32)
- per share - diluted	-	0.12	-
Net income (loss) - continuing operations	$ (2,497,177)	$ 6,528,677	$ (8,407,396)
- per share - basic	(0.04)	0.11	(0.14)
- per share - diluted	-	0.11	-
Total assets	$ 33,328,419	$ 39,747,363	$ 114,680,340
Long-term debt and obligations relating to assets held for disposition by sale and other than sale	$ -	$ 605,200	$ 30,371,950
Discontinued operations:			
Revenues	$ 350,175	$ 10,514,551	$ 47,238,351
Net income (loss) before gain/loss on disposition	$ (245,159)	$ (3,610,619)	$ (11,437,392)

The above table reflects the substantial progress the Company has made in disposing of businesses and/or assets that had negative cash flow and/or continued operating losses, the elimination of debt (which in many circumstances could not be carried by the assets/operations to which they related), and the continued high general and administrative costs of which legal and accounting fees primarily related to the Company's lawsuits are in excess of $4.0 million in 2005, $2.9 million in 2004, and $2.2 million in 2003.

As the Company's assets are now essentially comprised of cash (or cash equivalents), loans and notes receivable, restricted cash, and investments comprised primarily of public company shares that the Company plans to sell, the Company's shorter term future revenues will primarily be comprised of interest income. It is anticipated that operating overheads will be more consistent in future periods as the scope is reduced with the Company having completed its restructuring. The exceptions to this are for legal fees (as these are difficult to predict) and the increasing costs of doing business as a public company.

OPERATING RESULTS

The net loss for the year ended September 30, 2005 is $2,960,485 versus a net income of $6,867,752 for the year ended September 30, 2004. This variance between the two years is primarily as a result of the differing nature of the non-recurring items in each of these respective years. In fiscal 2005, the more significant non-recurring items were: (a) the sale of shares the Company held in public companies which generated a net gain of $1,471,243; (b) the debt settlement with and the deconsolidation of Newmex Minerals Inc. (as described in the September 30, 2005 consolidated financial statements) resulting in a net gain of $351,173; (c) take-over bid expenses of $924,826; and (d) the debt settlement, sale and deconsolidation of the operations of the Thunder Bay golf dome which resulted in a net loss of approximately $315,000.

Included in other income is approximately $1,884,000 reflecting the judgments Proprietary received in fiscal 2005 pertaining to certain "offshore" companies against which the Company initiated lawsuits. Interest income for the year ended September 30, 2005 is approximately $1,140,000 higher than the prior year comparable period primarily as a result of the new loans generated by the Company in the 2005 fiscal year.

The general and administrative expenses for the year ended September 30, 2005 include: legal and forensic accounting expenses of $3,955,284, staffing expenses of $1,045,409, foreign exchange losses of $542,474, and take-over bid expenses of $924,826. The sum of these aforesaid expenses represents 84.2% of the total general and administrative expenses for the period. In April, 2005 the Company awarded stock options with one-third of these options vesting in the 2005 fiscal period. As a result, included in the general and administrative expenses is an imputed stock based compensation expense of $194,111. The remaining imputed stock based compensation expense of $89,868 will be recorded over the next five fiscal quarters in relation to the vesting of the stock options.

In fiscal 2005, the Company concluded the sale of its subsidiary company which owned and operated a golf dome in Thunder Bay, Ontario ("golf dome"). The Company received no sale proceeds from this disposition and the Company also forgave the loan advances previously made to support the golf dome operations. The Company regarded the previous loan advances as sunk costs since the recovery thereof from future operations of the golf dome was unlikely within a reasonable period of time. As the disposition of the golf dome was via the sale of a subsidiary of the Company, the Company deconsolidated this subsidiary. The net result of the sale, debt settlement and deconsolidation was a loss in fiscal 2005 of $315,147. As a result of the sale, the Company is released and indemnified with respect to any ongoing ground lease obligations relating to the golf dome.

As described more fully in note 15 to the September 30, 2005 consolidated financial statements, on March 23, 2005 Newmex Minerals Inc. ("Newmex") issued 16,050,000 common shares through a private placement. As a result thereof and together with the cancellation of the Newmex "escrowed shares", the Company's common shareholding in Newmex decreased to 13.94%. The Company also sold 2.5 million of the shares it held in Newmex, thereby reducing the Company's common shareholdings in Newmex to 2.44%. Consequently, effective March 23, 2005 Newmex was no longer a subsidiary of the Company, necessitating that the Company no longer include the operations of Newmex in the Company's consolidated financial statements. This "deconsolidation" of Newmex resulted in the Company realizing a gain of $2,239,082 as the prior consolidation of Newmex had reflected a deficit (accumulated losses). At the time of deconsolidation, the Company's remaining shares held in Newmex were written down to the estimated net realizable value resulting in a write-down of $899,752. Effective March 24, 2005, the Company settled the indebtedness Newmex owed to the Company. The Company received consideration of $450,980 comprised of 2,233,043 common shares of Golden Phoenix Minerals Inc. ("GPXM") and $125,000 cash. This debt settlement resulted in a loss to the Company of $988,157. As these independent transactions all related to or resulted from the restructuring of Newmex, the Company has reflected a net gain in its financial statements of $351,173. Subsequently, the Company disposed of some of its GPXM shares at a gain of $22,651 and its remaining Newmex shares at a gain of $1,321,881.

The purchaser of the golf dome operations had purchased in prior years the Company's other golf operations/assets and in connection therewith, the purchaser disputed certain estimates used in calculations relating to the golf operations. As part of the original purchase agreement, $200,000 had been held back in trust from the sale proceeds to secure any adjustments. While the Company did not agree with all the adjustments claimed by the purchaser, the Company settled this dispute by releasing the $200,000 to the purchaser in full settlement of any and all adjustments. The Company reflected this settlement in discontinued operations as a disposition since it related to the finalization of this asset disposition.

In fiscal 2005 the Company recovered $200,000 US relating to the purported sale of TCS Mortgage Inc. The Company hopes to resolve this dispute in fiscal 2006, and it is uncertain at this time whether or not a further recovery is likely.

Fourth Quarter

The net income for the three months ended September 30, 2005 is $2,701,408 versus net income of $355,475 for the three months ended September 30, 2004. As mentioned above, it is not possible to reasonably compare these two periods due to the changed nature of the Company's operations at these two points in time.

With respect to the three months ended September 30, 2005, the net income is primarily derived from the gain on the sale of Newmex common shares and the recording of the receivable/other income relating the judgments received with respect to the "offshore" companies lawsuits [refer to Operating Results].

Summary of Quarterly Results

The summary of quarterly results for the last two years contains those results previously reported. It is difficult to compare each quarter as prior quarterly results are not restated for operations reflected in discontinued operations in future quarters. Diluted earnings per share for the fourth quarter of fiscal 2005 has not been shown even though the fourth quarter had net income, as the full fiscal 2005 year had a net loss and therefore the diluted loss per share is anti-dilutive.

Notwithstanding the difficulty in making quarterly comparisons, the table below does reflect the large variances that occurred as the Company accomplished the objectives discussed in the "Overview".

2005:	Q1	Q2	Q3	Q4
Revenues	269,026	381,014	733,708	3,810,358
General and admin. expenses	2,701,420	1,884,339	1,636,286	1,322,168
Other expenses	166,298	254,724	7,376	6,186
Interest	15,040	5,265	1,062	(219)
Amortization and depreciation	29,272	27,510	28,591	24,396
Write-downs	175,800	(351,173)	-	-
Recovery of prior write-downs	-	-	-	(243,580)
Total expenses	3,088,230	1,820,665	1,673,315	1,108,951
Net income (loss)	(2,842,421)	(1,440,718)	(1,378,754)	2,701,408
-per share - basic	(0.05)	(0.02)	(0.02)	0.05
-per share - diluted	-	-	-	-
Net income (loss) - continuing operations	(2,819,326)	(1,439,651)	(939,607)	2,701,407
-per share - basic	(0.05)	(0.02)	(0.02)	0.05
-per share - diluted	-	-	-	-

2004:	Q1	Q2	Q3	Q4
Revenues	2,495,371	6,107,543	2,839,631	3,950,424
General and admin. expenses	1,879,306	1,665,860	1,859,470	1,338,416
Other expenses	1,538,053	536,854	198,787	53,006
Interest	746,106	164,480	45,555	(61,282)
Amortization and depreciation	367,675	36,121	106,717	118,475
Write-downs	1,053,667	-	120,000	3,002,061
Recovery of prior write-downs	-	(5,268,141)	(15,990)	-
Total expenses	5,584,807	(2,864,826)	2,314,539	4,450,676
Net income (loss)	(1,165,025)	7,388,278	289,024	355,475
-per share - basic	(0.02)	0.12	0.00	0.01
-per share - diluted	-	0.12	0.00	0.01
Net income (loss) - continuing operations	(2,539,241)	8,478,856	517,305	(452,058)
-per share - basic	(0.04)	0.14	0.01	(0.01)
-per share - diluted	-	0.14	0.01	-

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

In fiscal 2005, the Company's primary utilization of cash was in covering its overhead costs, loans receivable advances, and the elimination of its long-term debt. In this period, the Company's primary sources of cash were from the sale of the public company shares it held, the collection of three U.S. notes receivable, the sale of four McGinty condominium units, and the sale of its remaining Bancroft assets.

The Company has sufficient cash to meet its present operating expenses and working capital requirements. While the Company anticipates favourable outcomes in its various lawsuits, there are no assurances of this and therefore its present cash position could be eroded by any unfavourable decisions and the costs to appeal, defend, and pursue these lawsuits. The Company will continue to make new loans that, while utilizing some of its present cash reserves, should generate future cash flow to the Company. The Company continues to investigate investment opportunities, which upon finding an appropriate investment will likely require the utilization of Company funds.

In the near term, the sources of future cash will be from the sale of some residual assets, collection of loans and notes receivable, and interest earned on its cash reserves.

CONTRACTUAL OBLIGATIONS

The Company has entered into various commitments relating to debt and an office premises lease. The following table summarizes the Company's contractual obligations at September 30, 2005:

	Payments Due By Period				
	1 Year	1 - 3 Years	4 - 5 Years	After 5 Years	Total
Notes payable	$ 872,019	-	-	-	$ 872,019
Office premises lease	117,492	29,373	-	-	146,865
Total contractual obligations	$ 989,511	29,373	-	-	$ 1,018,884

The office premises lease relates to the Company's head office premises in Calgary, Alberta. This lease expires on December 31, 2006. The lease has an early termination clause whereby after April 30, 2006 either the Company or the landlord can terminate the lease upon 90 days prior written notice. Upon the expiration of this lease, the Company expects to either extend its present lease on a short-term basis or relocate, whereupon it will enter into a new lease (the terms of which cannot be estimated at this time).

RELATED PARTY TRANSACTIONS

For the year ended September 30, 2005, the Company was charged $289,482 by the directors of the Company for director fees and services, which amount includes $95,857 relating to the amortization of the imputed fair value compensation expense for the stock options awarded to directors on April 4, 2005.

In fiscal 2005, the Company reimbursed PPI Acquisition Corp $457,398 (including GST) for reasonable out-of-pocket expenses pursuant to the October 22, 2004 Support Agreement between the Company and PPI Acquisition Corp., in connection with their take-over bid for the Company.

As discussed above under "Operating Results", the Company settled the debt owed to it by Newmex Minerals Inc., a company that was formerly a subsidiary of Proprietary. For the year ended September 30, 2005, Proprietary charged $44,300 for administrative and other services provided to Newmex, which has certain directors and officers in common with Proprietary.

As discussed above under "Operating Results", the Company settled the debt owed to it by a subsidiary company that owned and operated the golf dome.

The Company provides administrative services to various subsidiary companies, for which it charges no fees or nominal fees, which amounts are eliminated for accounting purposes upon the consolidation of the subsidiaries' results.

A company (the "specified co.") with a director in common with Proprietary provides loan syndication services for which the specified co. earns fees and other charges from borrowers. The Company has loans receivable of $6,881,013 as a syndication member through the specified co. For the year ended September 30, 2005, $76,209 (2004 - $nil) in fees and other charges pertaining to such loans receivable were paid by the respective borrowers to the specified co.

RISK MANAGEMENT

The Company's results are impacted by the operational risk inherent in all business activities, the market risks associated with foreign currency exchange rates, the market price of its investments in public company shares, the interest rates applicable to its short-term cash deposits and loans receivable, income tax legislation and the interpretation and application thereof, and the various lawsuits involving the Company. Most of these risks involve variables beyond the Company's control. The Company does not utilize derivative instruments to hedge its foreign exchange or its interest rates risks.

ACCOUNTING POLICIES AND ESTIMATES

Critical Accounting Estimates

The Company's critical accounting estimates are defined as those estimates that have a significant impact on the portrayal of the Company's financial position and operations and that require management to make judgments, assumptions and estimates in the application of Canadian generally accepted accounting principles. Judgments, assumptions and estimates are based on historical experience and other factors that management believes to be reasonable under current conditions. As events occur and additional information is obtained, these judgments, assumptions and estimates may be subject to change. We believe the following are the critical accounting estimates used in the preparation of the Company's September 30, 2005 consolidated financial statements:

a) Valuations, Provisions for Impairment, and Credit Risk

Management regularly reviews the carrying value of its assets in relation to the potential net recoverable value of those assets. In determining recoverable value, it utilizes acceptable valuation approaches relative to the respective asset, such as estimated recoverable value through cash flows from the asset, comparable prices for assets of similar status, and market quotes for stocks in publicly traded companies. Where the potential net recoverable value is estimated to be less than its carrying value or the carrying value cannot be substantiated, a write-down or impairment provision is made. Where loans have been made by the Company and the probability of collection of the funds within a reasonable time is unlikely, the Company takes an impairment provision.

Credit risk is the risk that a financial loss will be incurred due to the failure of the borrower to discharge its contractual commitment or obligation to the Company or the syndicate lead lender in circumstances where the Company is a lender via syndicate participation. The Company employs a number of lending criteria, risk assessment practises, and securitization in order to minimize its credit risk.

b) Income Tax

The Company has consolidated non-capital loss carry-forwards for tax purposes of $73.7 million in Canada and US $29.9 million in the U.S. These have not been recognized as a tax asset in the September 30, 2005 consolidated financial statements, as the Company does not believe that it can demonstrate that it is more likely than not that it will utilize these tax benefits against future taxable income during the carry forward periods. Inherent in the determination of these losses are management assumptions, estimates and judgments, including those related to the interpretation of income tax legislation.

c) Litigation

The Company is involved in a significant number of lawsuits, both as plaintiff and defendant, the outcomes of which cannot be determined at this time. As such these lawsuits represent contingent assets and liabilities.

Accounting Policies

A summary of the Company's significant accounting policies is presented in Note 2 to the Company's September 30, 2005 consolidated financial statements.

In April 2005, the Canadian Institute of Chartered Accountants issued Section 3855, *Financial Instruments-Recognition and Measurement*, Section 3865, *Hedges*, and Section 1530, *Comprehensive Income*. These new standards will be effective for the Company for its 2007 fiscal year beginning October 1, 2006. Section 3855 prescribes when to recognize a financial instrument on the balance sheet and at what amount – sometimes using fair market value; other times using cost-based measures. It also specifies how to present the financial instrument gains and losses. Section 1530 stipulates new requirements for situations when one must temporarily present certain gains and losses outside net income. The Company is undertaking its analysis of the impact of these standards. Section 3865 is unlikely to affect the Company as the Company does not conduct any hedging activities.

OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares, and an unlimited number of preferred shares. The preferred shares may be issued in one or more series and the directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions, and conditions attached to the shares of each series. At September 30, 2005 there were 59,835,356 common shares and no preferred shares outstanding. The Company issued no common shares and no preferred shares during the year ended September 30, 2005. On April 4, 2005, Proprietary granted stock options pursuant to the Company's Stock Option Plan to purchase an aggregate of 1,620,000 common shares at an exercise price of $0.69 per common share. The options vest as to 1/3 on each of April 4, 2005, December 31, 2005, and December 31, 2006, and subject to the other provisions of the Stock Option Plan and/or Option Agreements, the options have an expiry date of April 4, 2010.

On February 16, 2005 the shareholders approved, effective January 17, 2005, the Rights Plan Amendment, which the Board of Directors had approved on January 11, 2005, whereby the Shareholders Rights Plan ("Plan") will be extended to January 28, 2012 provided the Plan is reconfirmed by a resolution passed by a simple majority of the votes cast by independent shareholders who vote in respect of such reconfirmation at the annual meeting of the Company to be held in 2008 and at every third annual meeting of the Company thereafter. If shareholder reconfirmation is not obtained, the Rights Plan will terminate and all rights then outstanding shall terminate and be void.

Due to the low volume of the Company's shares trading on the Swiss Exchange, the Company requested and subsequently received approval on November 8, 2005 for the de-listing of its shares on the Swiss Exchange. Accordingly, the Company's shares will be de-listed from the Swiss Exchange on February 9, 2006 with the last day of trading on the Swiss Exchange being February 8, 2006.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are defined Under Multilateral Instrument 52-109 – Certification of Disclosure Controls in Issuers' Annual and Interim Filings ("MI 52-109") as "...controls and other procedures of an issuer that are designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under provincial and territorial securities legislation is recorded, processed, summarized and reported within the time periods specified in the provincial and territorial securities legislation and include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in its annual filings, interim filings or other reports filed or submitted under provincial and territorial securities legislation is accumulated and communicated to the issuer's management, including its chief executive

officers and chief financial officers (or persons who perform similar functions to a chief executive officer or a chief financial officer), as appropriate to allow timely decisions regarding required disclosure." The Company has conducted a review and evaluation of its disclosure controls and procedures, with the conclusion that it has an effective system of disclosure controls and procedures as defined under MI 52-109. In reaching this conclusion, the Company recognizes that two key factors must be and are present:

(a) the Company is very dependant upon its advisors and consultants (principally its legal counsels) to assist in recognizing, interpreting, understanding and complying with the various securities regulations disclosure requirements; and

(b) an active Board and management with open lines of communication.

The Company has a small staff with varying degrees of knowledge concerning the various regulatory disclosure requirements. In many circumstances, the various regulatory requirements are relatively new, subject to interpretation, and complex. The Company is not of a sufficient size to justify a separate department or one or more staff member specialists in this area. Therefore the Company must rely upon its advisors/consultants to assist it and as such they form part of the disclosure controls and procedures.

Proper disclosure necessitates that one not only be aware of the pertinent disclosure requirements, but one is also sufficiently involved in the affairs of the Company and/or receives the communication of information to assess any necessary disclosure requirements. Accordingly, it is essential that there be proper communication among those people who manage and govern the affairs of the Company, this being the Board of Directors and senior management. The Company believes this communication exists.

While the Company believes it has adequate disclosure controls and procedures in place, lapses in the disclosure controls and procedures could occur and/or mistakes could happen. Should such occur, the Company will take whatever steps necessary to minimize the consequences thereof.

OUTLOOK

While the Company continues to aggressively pursue certain lawsuits in order to protect the Company and preserve shareholder value, it is also in search of long-term investment opportunities. In the interim, the Company will invest its cash reserves in interest bearing instruments and short-term loans receivable in order to generate income/cash flow to carry the Company's overheads.

PROPRIETARY INDUSTRIES INC.

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2005 AND 2004

Mintz & Partners LLP

AUDITORS' REPORT

To the Shareholders of
Proprietary Industries Inc.

We have audited the consolidated balance sheets of Proprietary Industries Inc. as at September 30, 2005 and 2004 and the consolidated statements of earnings, deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether these financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in these financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the presentation of overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Proprietary Industries Inc. as at September 30, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Mintz & Partners LLP

CHARTERED ACCOUNTANTS

December 7, 2005
Toronto, Ontario

Management's Report

The accompanying Consolidated Financial Statements of Proprietary Industries Inc. and related financial information presented in this annual report are the responsibility of Management. The Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles. The Consolidated Financial Statements and related financial information reflect amounts which must, of necessity, be based upon informed estimates and judgments of Management with appropriate consideration to materiality. All financial information contained in the annual report is consistent, where appropriate, with that contained in the Consolidated Financial Statements.

The Company has developed and maintains systems of internal controls, policies and procedures in order to provide reasonable assurance as to the reliability of the financial records and the safeguard of assets.

Mintz & Partners LLP, independent external auditors appointed by the shareholders of the Company, review Proprietary Industries Inc.'s systems of internal controls and conduct their work to the extent they deem appropriate. They have examined the Consolidated Financial Statements and they have expressed an opinion on the statements. Their report is included in the Consolidated Financial Statements.

The Board of Directors has established an Audit Committee. The Audit Committee reviews with Management and the external auditors any significant financial reporting issues, the financial statements, and any other matters of relevance to the parties. The Audit Committee meets quarterly to review and approve the interim financial statements prior to their release, as well as annually to review the Company's annual financial statements, Management's discussion and analysis, and the Annual Information Form, and to recommend their approval to the Board of Directors. The external auditors have unrestricted access to the Company, the Audit Committee and the Board of Directors.

"signed"
Graham S. Garner
Chief Executive Officer

"signed"
William H. Berezan
Chief Financial Officer

PROPRIETARY INDUSTRIES INC.

Consolidated Balance Sheets

As at September 30		2005		2004
Assets				
Current				
Cash and cash equivalents	$	**13,979,830**	$	30,105,300
Short-term investments		**-**		632,081
Accounts receivable		**2,326,290**		413,903
Loans and notes receivable (Note 5)		**8,280,456**		-
Inventories		**-**		45,824
Prepaid expenses and deposits		**102,741**		72,881
Assets held for disposal by sale (Note 10)		**-**		654,964
		24,689,317		31,924,953
Loans and notes receivable (Note 5)		**3,030,424**		1,057,277
Restricted cash deposits (Note 6)		**5,032,371**		5,000,000
Property and equipment (Note 7)		**221,387**		963,382
Investments (Note 8)		**354,920**		801,751
	$	**33,328,419**	$	39,747,363
Liabilities				
Current				
Accounts payable and accrued liabilities	$	**1,410,598**	$	4,701,682
Notes payable (Note 11)		**872,019**		892,489
Customer deposits		**-**		5,155
Income taxes payable		**125,310**		140,396
Current portion of long-term debt (Note 12)		**-**		605,200
Deferred revenue (Note 5)		**286,447**		2,022
		2,694,374		6,346,944
Non-controlling interest in subsidiaries		**1,769,509**		1,769,509
		4,463,883		8,116,453
Shareholders' Equity				
Share capital (Note 13)		**142,319,358**		142,319,358
Contributed surplus (Note 14)		**15,724,319**		15,530,208
Deficit		**(129,179,141)**		(126,218,656)
		28,864,536		31,630,910
	$	**33,328,419**	$	39,747,363

Litigation and Contingencies (see Note 20)

Approved on behalf of the Board:

"Signed"
Stephen C. Akerfeldt

"Signed"
A. Murray Sinclair

PROPRIETARY INDUSTRIES INC.

Consolidated Statements of Earnings and Deficit

For the years ended September 30		2005		2004
Revenue				
Rental	$	18,530	$	41,023
Finance		-		5,330,849
Interest		1,385,689		245,900
Gain on sale of assets		1,626,715		1,531,124
Investment and other		1,895,108		5,141,541
		4,926,042		12,290,437
Expenses				
Rental		29,698		60,693
General and administrative		7,681,035		6,580,053
Depreciation and amortization		110,169		316,875
Interest		21,148		389,232
Write-downs (Note 15)		175,800		3,950,050
Recoveries (Note 15)		(594,753)		(5,423,455)
		7,423,097		5,873,448
Income (loss) before income taxes, non-controlling interest, and discontinued operations		(2,497,055)		6,416,989
Income taxes (recoveries) (Note 17)		122		(32,326)
Non-controlling interest in subsidiaries		-		(79,362)
		122		(111,688)
Net income (loss) for the year from continuing operations		(2,497,177)		6,528,677
Discontinued operations, net of income taxes (Note 16)		(463,308)		339,075
Net income (loss) for the year		(2,960,485)		6,867,752
Deficit, beginning of year		(126,218,656)		(133,086,408)
Deficit, end of year	$	(129,179,141)	$	(126,218,656)
Earnings (loss) per share - basic	$	(0.05)	$	0.12
Earnings (loss) per share - diluted (Note 13)	$	-	$	0.12
Earnings (loss) per share from continuing operations - basic	$	(0.04)	$	0.11
Earnings (loss) per share from continuing operations - diluted (Note 13)	$	-	$	0.11
Weighted average number of common shares used in computing earnings (loss) per share, basic and diluted		59,835,356		59,835,356

PROPRIETARY INDUSTRIES INC.

Consolidated Statements of Cash Flows

For the years ended September 30		2005		2004
Cash flows provided by (used in)				
Operating activities				
Net income (loss)	$	(2,960,485)	$	6,867,752
Items not involving cash				
Depreciation and amortization		110,169		1,307,561
Future income taxes recovery		-		(6,341)
Gain on sale of assets and investments		(1,608,566)		(4,697,045)
Write-downs and recoveries		(106,668)		5,965,680
Non-controlling interest in subsidiaries		-		(79,362)
Foreign exchange loss (gain)		660,223		(572,495)
Non-cash items in other income		-		(5,535,726)
Imputed stock based compensation expense		194,111		-
		(3,711,216)		3,250,024
Changes in non-cash balances related to operations (Note 21)		(4,995,368)		(6,954,698)
		(8,706,584)		(3,704,674)
Financing activities				
Decrease in long-term debt, net		(605,200)		(31,369,611)
Repayments to related parties		-		(4,746,620)
Repayment of notes payable		-		(3,104,443)
		(605,200)		(39,220,674)
Investing activities				
Collection of notes receivable, net		943,095		12,200,052
Loans receivable advances		(11,253,013)		-
Proceeds on sale of investments, net		2,722,895		1,164,079
Proceeds on sale of land, net		-		4,479,031
Proceeds on disposition of property and equipment		1,322,167		59,170
Additions to property and equipment		(2,114)		(57,140)
Net cash proceeds on business dispositions		-		50,455,623
		(6,266,970)		68,300,815
Effect of exchange rate changes on cash held in foreign currency		(546,716)		(113,592)
Increase (decrease) in cash and cash equivalents		(16,125,470)		25,261,875
Cash and cash equivalents, beginning of year		30,105,300		4,843,425
Cash and cash equivalents, end of year	$	13,979,830	$	30,105,300

Supplementary disclosure of cash flow information:

Interest paid	$	21,696	$	2,100,945
Taxes paid	$	8,554	$	106,908

1. NATURE OF OPERATIONS

The accompanying consolidated financial statements of Proprietary Industries Inc. (the "Company" or "Proprietary") include the financial position, results of operations, and cash flows for the Company and its subsidiaries as indicated below:

Proprietary Developments Ltd.	100%
EnerGCorp Acquisitions Inc.	100%
Strategia Corporation	97%
EnerGCorp Inc.	91%
AV Sport Inc.	91%
American Home Capital Corporation	86%
Swiss Asset Management Inc.	86%

Not included in the above list are: (a) companies whose balance sheets and results of operations are not material to the Company, (b) companies whose operations have been disposed of during the current year and therefore their results of operations have been reflected in discontinued operations (refer to Note 16), (c) companies for which the Company lost control (through insolvency or otherwise) or access to their cash flow, and (d) Newmex Minerals Inc., a previous subsidiary of the Company (through a 57% common share ownership) that was substantively disposed of and therefore whose results of operations and cash flows were deconsolidated effective March 23, 2005 (see Note 15).

Proprietary is a company listed and traded on the Toronto Stock Exchange under the trading symbol PPI (see Note 22). The Company operates as a merchant bank and accordingly, it makes loans to and invests in various businesses. The resolution of most of the issues disclosed in the Company's fiscal 2003 and 2004 annual reports has resulted in a reduction in the nature, quantity and variety of the Company's operations, assets, and debt obligations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) PRINCIPLES OF CONSOLIDATION
The financial statements of entities which are controlled by the Company, referred to as subsidiaries, are consolidated. Entities which are not controlled and for which the Company has the ability to exercise significant influence over are accounted for using the equity method. Investments in other entities are accounted for using the cost method, except for short-term investments as described in D below. All inter-company transactions have been eliminated.

(B) FOREIGN CURRENCY TRANSLATION
The Company utilizes the temporal method of accounting for foreign currency transactions and financial statements of its subsidiaries. Under the temporal method, monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at the historical exchange rates, except those items carried at market, which are translated at the exchange rates in effect at the balance sheet date. Revenues and expenses are translated at the average rate for the period, except for charges related to non-monetary assets which are translated at the historical rate for the asset to which the charge relates, and material items where a specific date can be identified for the transaction which is translated at the rate on that specific date. Exchange gains or losses are reflected in net earnings. The Company regularly reviews whether its subsidiaries should be treated as self-sustaining or integrated with the parent company. At September 30, 2004 and 2005 the Company has determined that its subsidiaries should be reported as integrated.

(C) CASH AND CASH EQUIVALENTS
Cash and cash equivalents includes cash on hand and short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(D) SHORT-TERM INVESTMENTS
Short-term investments are recorded at the lower of cost or market value. Market value is defined as the trading value at the date of the balance sheet. Shares of public companies that are classified as current assets are marked to market as portfolio investments.

(E) NOTES RECEIVABLE
Notes receivable are reviewed on a loan by loan basis and where an impairment in the value of the note receivable is determined, a provision for impairment is made. The Company does not reflect in its consolidated financial statements further accrued interest on impaired loans, and to the extent further accrued interest is collected, this will be reflected in the Company's consolidated financial statements at that time.

(F) INVENTORIES
Inventories are valued at the lower of cost and estimated net realizable value with cost being determined on a first-in, first-out basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(G) PROPERTY AND EQUIPMENT

Property and equipment are recorded at the lower of cost and net recoverable amount. The cost of property disposed of and related accumulated amortization are removed from the accounts at the time of disposition with any resulting gain or loss included in income.

Management regularly reviews the carrying value of each of its property and equipment and if it is determined that there is an impairment in net carrying value, such impairment is charged to income in the year such determination is made. Future amortization will be charged based on the post-impairment carrying value.

Amortization is provided for over the estimated useful lives of the assets on the declining balance basis at rates ranging from 4% to 30%. Leasehold improvements are amortized on a straight-line basis over the life of the related lease. Buildings are amortized on a declining balance basis at the rate of 4% per year.

(H) ASSETS HELD FOR DISPOSAL

As the Company is a merchant bank operation, it is in the business of purchasing and disposing of assets and businesses.

Long lived assets being held for sale that meet the restrictive criteria of Canadian generally accepted accounting principles (Section 3475 of the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook")) are segregated in the attached consolidated balance sheet. Any such assets for which the sale has been completed before the completion of these financial statements are classified, in accordance with the requirements of the CICA Handbook, as current assets.

Long lived assets that are being held for disposal but for which the Company has no control over the disposal process are segregated and classified as assets held for disposal by other than sale.

Operating results of businesses or components of segments that are classified as being held for sale at year end, as well as results of business segments or components of segments sold, including gain or loss on sale, during the year are classified as results of discontinued operations in the attached consolidated financial statements. The 2004 operating results of any businesses sold during fiscal 2005 that met the requirements for treatment as discontinued operations have been reclassified to discontinued operations on a comparative basis.

(I) LONG-TERM INVESTMENTS

The accounts of all subsidiaries are consolidated from the dates of acquisition. Investments in significantly influenced companies are accounted for by the equity method. Other long-term investments, including shares in public companies not classified as current assets and interests in limited partnerships are carried at cost. When there is other than a temporary decline in value, these investments are written down to provide for the impairment loss.

(J) REVENUE RECOGNITION

(i) Recreation

Revenue is recognized as services are provided or merchandise sold and title passes to the customer. Funds received in advance of meeting the revenue recognition criteria are deferred until future periods.

(ii) Interest

The Company recognizes interest when earned. If a loan is considered a non-performing loan, interest is not recognized until it is actually collected.

(iii) Rent

Rent revenue is recognized as income in the month earned.

(K) LEASES

Leases are classified as capital or operating leases. Leases which transfer substantially all of the benefits and risks of ownership of property are accounted for as capital leases. Assets acquired under capital leases are amortized on a declining balance method at an annual rate of 20%. All other leases are accounted for as operating leases and the related lease payments are charged to expense as incurred.

(L) INCOME TAXES

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in the period that includes the date of substantive enactment. To the extent that management does not consider it to be more likely than not that a future income tax asset will be realized, a valuation allowance is provided.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(M) STOCK OPTION PLAN

The Company has a stock option plan as described in Note 13. The fair value method, utilizing the Black-Scholes option pricing model, has been adopted by the Company for stock options granted to directors, officers, and employees. The estimated fair value is recognized over the applicable vesting period as compensation expense and an increase to contributed surplus. When the options are exercised, the proceeds received and the applicable amount in contributed surplus will be credited to capital stock.

(N) EARNINGS PER SHARE

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated based upon the treasury stock method which assumes that any proceeds from the exercise of in-the-money stock options would be used to purchase the Company's common shares at the average market price during the year Diluted earnings per share or loss per share is not presented for fiscal 2005 as the effect would be anti-dilutive.

(O) USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and timing of the recognition of revenues and expenses during the reporting period. Actual amounts may differ from these estimates as future events occur.

(P) LITIGATION

The Company assesses each lawsuit on an action by action basis as to the probability that a claim will be successful. Claims are not reflected as an asset or liability or an expense or recovery in the consolidated financial statements until such time as there is a high degree of probability that the claim will be successful, taking into consideration all avenues of appeal and settlement.

(Q) COMPARATIVE AMOUNTS

Certain comparative amounts, including prior year results of business operations that meet the criteria for treatment as discontinued operations (Note 16), have been reclassified to conform to the current year's presentation.

(R) RECENT PRONOUNCEMENTS

In April 2005, the Canadian Institute of Chartered Accountants issued Section 3855, *Financial Instruments-Recognition and Measurement*, Section 3865, *Hedges*, and Section 1530, *Comprehensive Income*. These new standards will be effective for the Company for its 2007 fiscal year beginning October 1, 2006. Section 3855 prescribes when to recognize a financial instrument on the balance sheet and at what amount – sometimes using fair market value; other times using cost-based measures. It also specifies how to present the financial instrument gains and losses. Section 1530 stipulates new requirements for situations when one must temporarily present certain gains and losses outside net income. The Company is undertaking its analysis of the impact of these standards. Section 3865 is unlikely to affect the Company as the Company does not conduct any hedging activities.

3. RELATED PARTY TRANSACTIONS

(A) DUE FROM RELATED PARTIES

	2005	2004
Note receivable from Mr. Peter Workum, former Chief Executive Officer, bearing interest at 10.0%, with no fixed terms of repayment. Loan provided to enable the exercise of 305,000 stock options of the Company in December of 2000. 397,000 common shares of Newmex Minerals Inc. provided as collateral (see Note 20).	**$ 595,490**	$ 595,490
Receivable from Mr. Peter Workum, former Chief Executive Officer, unsecured and non-interest bearing, with no fixed terms of repayment (see Note 20).	**147,144**	147,144
Receivable from Mr. Peter Workum, former Chief Executive Officer, denominated in US $1,644,693, unsecured and non-interest bearing, with no fixed terms of repayment (see Note 20).	**1,912,285**	2,088,596
Receivable from 667571 Alberta Ltd., a company believed to be controlled by Mr. Peter Workum, former Chief Executive Officer, with no fixed terms of repayment, unsecured and non-interest bearing (see Note 20).	**100,000**	100,000
Receivable from Strategic Investments Fund, a company believed to be controlled by Mr. Peter Workum, former Chief Executive Officer, with no fixed terms of repayment, unsecured and non-interest bearing (see Note 20).	**192,000**	192,000
Receivable from Lexington Capital Inc., a company believed to be controlled by Mr. Peter Workum, former Chief Executive Officer, with no fixed terms of repayment, unsecured and non-interest bearing (see Note 20).	**66,666**	66,666

3. RELATED PARTY TRANSACTIONS (continued)

(A) DUE FROM RELATED PARTIES (continued)

Note receivable from HS Replica Cars AG, a company believed to be controlled by Mr. Peter Workum, former Chief Executive Officer, and Mr. Rolf Brunner, a former director, due on demand, bearing interest at 12% per annum, and collateralized by real estate, with no fixed terms of repayment (see Note 20).	**425,193**	425,193
Note receivable from Mr. Theodor Hennig, former Chief Financial Officer, unsecured, bearing interest at 10.0%, with no fixed terms of repayment. Loan provided to exercise 50,000 stock options of the Company in December of 2000 (see Note 20).	**244,053**	244,053
Promissory note receivable from Law Investments Inc., a company partially owned by Mr. Grant Sardachuk, a former director of the Company and former President of EnerGCorp, Inc., bearing interest at 8%. The note is denominated in US dollars ($253,467), was due in September 2003 and is collateralized by 3,512 shares of common stock of American Home Capital Corporation, held in escrow.	**294,706**	321,878
Note receivable from The Creative Classics Company, a company managed by a former officer of the Company, bearing interest at 7%, with no fixed terms of repayment.	**4,007,113**	4,007,113
Note receivable from The Creative Classics Company, a company managed by a former officer of the Company, denominated in US $1,771,005, bearing interest at 7%, with no fixed terms of repayment.	**2,059,148**	2,248,999
Note receivable from Swiss Plastering & Interiors, Inc., a company managed by a former officer of the Company, denominated in US $2,192,863, bearing interest at 7%, with no fixed terms of repayment.	**2,549,642**	2,784,717
Note receivable from Hampton Court Resources, a company whose President is a former director of the Company, with no fixed terms of repayment.	**5,029,309**	5,029,309
Due from a company affiliated with Mr. Greg Harrington, formerly a director of a subsidiary, non-interest bearing, with no fixed terms of repayment, denominated in US dollars (US $50,499).	**58,715**	64,129
Unsecured promissory note due from a company affiliated with Mr. Greg Harrington, formerly a director of a subsidiary, denominated in US dollars ($125,125), bearing interest at 9% per annum. The note was due December 28, 2002.	**145,483**	158,896
Unsecured promissory note due from Mr. Greg Harrington, formerly a director of a subsidiary, denominated in US dollars ($316,682), bearing interest at 9% per annum. The note was due December 28, 2002.	**368,206**	402,154
Note receivable from Cofima Finanz AG, a company that has acted in concert with former management of the Company, partially in US dollars ($330,000) plus accrued interest, bearing interest at 18%, unsecured, and due on demand (see Note 20).	**906,645**	906,645
Note receivable from Alternative Vehicle Rentals Inc., a company now controlled by an entity controlled by Ron Conquest, who was acting in the capacity of an officer of EnerGCorp, Inc., bearing interest at 12% per annum, secured by automotive inventory, denominated in US dollars ($329,411).	**383,006**	418,319
Other, non-interest bearing, with no fixed terms of repayment.	**5,814**	6,350
	19,490,618	20,207,651
Less: provision for uncollectible amounts	**(19,490,618)**	(20,207,651)
	$ **-**	$ -

The Company has not reflected in its consolidated financial statements further accrued interest on the loans classified as uncollectible, and to the extent further accrued interest is collected, this will be reflected in the Company's consolidated financial statements at that time.

Those loans made in US dollars are translated into Canadian dollar equivalents at the exchange rate in effect on the last day of the reporting period. Accordingly the carrying value of these notes receivable will fluctuate between periods, and an exchange gain or loss could result upon the collection of the note receivable.

3. RELATED PARTY TRANSACTIONS (continued)

(B) TRANSACTIONS WITH RELATED PARTIES

a) The Company paid interest to related parties for each of the years ended September 30, as follows:

		2005		2004
CPV/CAP COOP Personalversicherung, Pensionskasse der Coop Gruppe	$	-	$	116,984
SPIDA		-		29,389
	$	-	$	146,373

b) For the year ended September 30, 2005, the Company was charged $289,482 (2004 - $491,395) by the directors for directors fees and other services. Included in this figure is $95,857 (2004 - nil) relating to the imputed fair value compensation expense for stock options (see Note 13). At September 30, 2005, $20,000 (2004 - $210,725) was due to these directors and included in accounts payable and accrued liabilities in the consolidated balance sheet.

c) For the year ended September 30, 2005 the Company reimbursed PPI Acquisition Corp. ("PAC") $427,477 (2004 - $nil) for reasonable out-of-pocket expenses pursuant to a Support Agreement, in respect of PAC's successful take-over-bid for the Company.

d) A company (the "specified co.") with a director in common with Proprietary provides loan syndication services for which the specified co. earns fees and other charges from borrowers. The Company has loans receivable of $6,881,013 (Note 5) as a syndication member through the specified co. For the year ended September 30, 2005, $76,209 (2004 - $nil) in fees and other charges pertaining to such loans receivable were paid directly by the respective borrowers to the specified co.

e) For the year ended September 30, 2005, the Company charged $44,300 (2004 - $nil) for administrative and other services provided to Newmex Minerals Inc. ("Newmex"), a company of which certain directors and officers are in common with Proprietary. Prior to March 23, 2005, these services were provided to Newmex at no charge as Newmex was a 57% subsidiary of the Company. The Company also settled the indebtedness of Newmex as part of the transactions disclosed in Note 15.

4. CONSULTING FEES

During the year ended September 30, 2005 the Company paid consulting fees for management services to APG Capital Services Corp. ("APG") in the amount of $46,000 (2004 - $608,000).

In addition, the Company paid APG fees based upon the dispositions (as disclosed in Note 16) that occurred prior to year end in the amount of $34,080 (2004 - $5,297,114). Included in accounts payable and accrued liabilities at September 30, 2005 is $nil due to APG (2004 - $236,000).

5. LOANS AND NOTES RECEIVABLE

		2005		2004
Notes receivable:				
Citywide Funding, Inc. with balance denominated in US dollars of $2,234,500 with interest at 20% per annum, due on demand, unsecured.	$	**2,598,053**	$	2,837,592
Montevina Estate Homes with balance denominated in US dollars of $811,125 at September 30, 2004, bearing interest of 12% per annum, secured by a subordinated charge on real estate.		-		1,030,048
Comsite AG Inc. bearing interest at the rate of 24% per annum, convertible into common shares of Comsite AG Inc.		**774,072**		774,072
Chateau Hotels and Resorts Inc. (see Note 20), bearing interest ranging from 12% to 24% per annum, secured by a personal guarantee and financing contracts, due September 30, 2002.		**572,418**		572,418
557497 Alberta Limited, unsecured, bearing interest at 12% per annum, due on demand.		**130,000**		130,000
Other notes receivable due on demand.		-		27,229
		4,074,543		5,371,359

5. LOANS AND NOTES RECEIVABLE (continued)

	2005	2004
Loans receivable:		
Bearing interest at fixed rates between 8.5% and 12.5%, with interest only payable until loan maturity. All but one of the loans have a term of one year from the date of initial advance, with maturities of up to nine months from September 30, 2005. A $3,022,000 loan plus accrued interest has a maturity of two years. These loans are secured by the assets to which they relate (primarily real estate), together with corporate and/or personal guarantees. The Company is committed to advance an additional $343,987 pertaining to a loan where the further advances are based upon construction draws.	**11,310,880**	-
	15,385,423	5,371,359
Deduct: provision for impairment in value	**(4,074,543)**	(4,314,082)
	11,310,880	1,057,277
Current portion	**8,280,456**	-
	$ 3,030,424	$ 1,057,277

The provision for impairment in value has been determined on a loan by loan basis. The Company has not accrued further interest on impaired loans, and to the extent interest is subsequently collected, this will be recorded at the time of collection of the interest. Included in deferred revenue is interest paid by borrowers (interest reserves) of $284,132 which will be recorded as interest income on a monthly basis as earned by the Company.

Those loans made in US dollars are translated into Canadian dollar equivalents at the exchange rate in effect on the last day of the reporting period. Accordingly the carrying value of these notes receivable will fluctuate between periods, and an exchange gain or loss could result upon the collection of the note receivable.

6. RESTRICTED CASH DEPOSITS

Restricted cash is not available for general corporate purposes. The restricted cash deposit is comprised of $5,000,000 (plus interest received thereon) held in a trust account pursuant to a trust agreement in respect of the indemnity the Company provided to certain present and past directors and officers against claims and liabilities that may arise as a result of their association with the Company (see Note 20).

7. PROPERTY AND EQUIPMENT

		2005	
	Cost, net of impairment	**Accumulated amortization**	**Net carrying value**
Buildings	**$ 253,326**	**$ 40,984**	**$ 212,342**
Leasehold improvements	**324,965**	**324,965**	**-**
Machinery and equipment	**189,977**	**180,932**	**9,045**
	$ 768,268	**$ 546,881**	**$ 221,387**

		2004	
	Cost, net of impairment	Accumulated amortization	Net carrying value
Buildings	$ 826,041	$ 117,573	$ 708,468
Mining properties	125,000	-	125,000
Leasehold improvements	324,965	232,479	92,486
Machinery and equipment	190,160	180,033	10,127
Vehicles	71,332	44,031	27,301
	$ 1,537,498	$ 574,116	$ 963,382

8. INVESTMENTS

		2005		2004
AirIQ - at cost (market - $21,000)	$	**14,000**	$	317,033
Phoenix Capital Income Trust - at cost		**92,919**		450,818
Golden Phoenix Minerals Inc. - at cost (market - $332,527)		**214,101**		-
Other - at cost		**33,900**		33,900
	$	**354,920**	$	801,751

In June 2005, Phoenix Capital Inc. was converted into an income trust. The Company received cash of $357,898 and 46,164 Phoenix Capital Income Trust units ("trust units") in exchange for its 471,000 Phoenix Capital Inc. common shares. The Company recorded the cash received as a reduction in the carrying value of the trust units, due to the uncertainty of the market value of the trust units once they commence trading.

9. TCS MORTGAGE INC. ("TCS")

On October 3, 2003, the sole director of American Home Capital Corporation ("AHCC") purported to effect the sale of TCS to a company related to management of TCS without the knowledge or consent of Proprietary, the major indirect shareholder. The operations of TCS continued without management or supervision from Proprietary and Proprietary had been unable by legal means to assert control or ownership. Proprietary challenged the offered price and certain other aspects of this purported sale. While Proprietary management had attempted a number of times to resolve these issues with TCS, it had been unsuccessful. The Company therefore effectively lost control of the TCS operations on October 3, 2003, no further financial information on the operations of TCS had been received by the Company, and TCS management had not responded to requests for such information. As a result of the aforesaid effective loss of control, the Company determined that a disposition took place, it discontinued the inclusion of TCS in its consolidated financial statements, and it took a valuation allowance and write-down of its investment in TCS of $513,233 at September 30, 2004.

In fiscal 2005, the Company received a payment of $200,000 US which it has reflected as a recovery on the prior valuation allowance (see Note 15) and has included this amount in the statement of earnings. Upon the ultimate resolution of this matter the Company will include any further recovery of its investment in its consolidated financial statements at that time.

10. ASSETS HELD FOR DISPOSAL BY SALE

Long lived assets that are not yet disposed of at period end and that meet the restrictive criteria under generally accepted accounting principles (Section 3475 of the CICA Handbook), are segregated and classified as assets held for disposal by sale. The indebtedness secured by these long lived assets is classified as obligations related to assets held for disposal by sale. Long lived assets that are classified as assets held for disposal by sale at period end for which the sale has been completed by the date of completion of these financial statements are classified as current assets.

		Total
Assets held for disposal by sale at September 30, 2005:		
Property and equipment	$	**Nil**

Assets held for disposal by sale at September 30, 2004:

		Bancroft Commercial Plaza and Land (Note 16)		Total
Property and equipment	$	654,964	$	654,964

11. SHORT-TERM NOTES PAYABLE

		2005		2004
The Lodge at Waterton Lakes Limited Partners and the shareholders of The Lodge at Waterton Lakes Inc. This note payable is now unsecured, whereas previously it was secured by a third charge on the Waterton Lakes Lodge assets.	$	**650,000**	$	650,000
Other		**222,019**		242,489
	$	**872,019**	$	892,489

12. LONG-TERM DEBT

		2005		2004
BC Condos (McGinty Landing)				
Mortgages payable in monthly installments of $8,494 including interest at various rates from 6.9% to prime plus 4% secured by first mortgages on capital assets with a carrying value of $708,468 at September 30, 2004, and an assignment of rents.	$	-	$	605,200
Less current portion		-		605,200
	$	-	$	-

The 2004 debt on the BC condos had been reflected as current, as the mortgages were subject to annual renewal.

13. SHARE CAPITAL

a) Authorized

The Company is authorized to issue an unlimited number of common shares, and an unlimited number of preferred shares. The preferred shares may be issued in one or more series and the directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions, and conditions attached to the shares of each series.

(b) Issued

Common shares issued:

	Number of Shares		Attributed Value
Balance September 30, 2003	56,684,242	$	141,323,353
Issued for cash in private placement, net of issue costs	2,758,000		3,354,338
Issued to employees and directors under the employee share purchase plan:			
For cash	991,307		817,551
Contributions by the Company	991,307		817,551
Redemption of shares	(1,589,500)		(3,993,435)
Balance September 30, 2004 and 2005	59,835,356	$	142,319,358

c) Stock Options

The Company's Stock Option Plan, which was approved by the shareholders on February 16, 2005, permits the Company to grant options to its directors, officers, and employees for up to 5,983,534 common shares. The granting of options, exercise price, vesting, and terms of the option agreement are determined by the Board of Directors. The exercise price cannot be at a discount to the market price of the common shares on the last day preceding the grant of the option.

	Number of Options		Weighted Average Exercise Price
Outstanding, beginning of year	-	$	-
Granted	1,620,000		0.69
Exercised	-		-
Cancelled	-		-
Outstanding, end of year	1,620,000	$	0.69
Exercisable, end of year	540,000	$	0.69

There were no outstanding stock options at September 30, 2004.

On April 4, 2005, the Board granted stock options pursuant to the Company's Stock Option Plan to purchase an aggregate of 1,620,000 common shares at an exercise price of $0.69 per common share. The options vest as to 1/3 on each of April 4, 2005, December 31, 2005, and December 31, 2006, and subject to the other provisions of the Stock Option Plan and/or Option Agreements, the options have an expiry date of April 4, 2010.

13. SHARE CAPITAL (continued)

c) Stock Options (continued)

In the year ended September 30, 2005, an imputed compensation expense of $194,111 was recognized relating to the estimated fair value of the options granted on April 4, 2005. The fair value of the options was estimated using the Black-Scholes option pricing model with the following weighted average variables and assumptions: (a) risk-free interest rate of 3.65%, (b) expected option life of 4.2 years, (c) expected volatility of 23.5%, and (d) no expected dividends. The weighted average fair value of 1,620,000 options granted was estimated at $0.17 per share.

d) Employee Stock Purchase Plan

The Employee Stock Purchase Plan (the "Plan") was cancelled on January 5, 2005. At the time of cancellation of the Plan, no employees were eligible to exercise stock purchases under the Plan.

e) Shareholders Rights Plan

Effective January 28, 2002, the Board of Directors adopted, and subsequently on March 28, 2002 the shareholders approved and ratified, a Shareholders' Rights Plan (the "Rights Plan") whereby each common share of the Company carries one right to purchase additional common shares. The rights under the Rights Plan are currently not exercisable but may become exercisable upon the acquisition by a person or group of affiliated persons ("Acquiring Person") of beneficial ownership of 20% or more of the Company's outstanding voting shares or upon the commencement of a takeover bid, other than a "Permitted Bid" as defined in the Rights Plan. Upon a person becoming an Acquiring Person, holders of rights, with the exception of the Acquiring Person, in such circumstances will be entitled to purchase from the Company for $100 common shares having a market price of $200 at the time the rights become exercisable.

The Rights Plan has a permitted bid feature which allows a takeover bid to proceed without the rights under the Rights Plan becoming exercisable, provided that it meets certain requirements set out in the Rights Plan, including minimum time periods for acceptance of the bid, a minimum 50.1% acceptance by shareholders excluding the Acquiring Person, and the filing of a takeover bid circular, even if the Board of Directors does not support the bid.

On February 16, 2005 the shareholders approved, effective January 17, 2005, an amendment to the Rights Plan whereby the Rights Plan was extended to January 28, 2012 provided the Rights Plan is reconfirmed by a resolution passed by the majority of votes cast by independent shareholders who vote in respect of such reconfirmation at the annual meeting of the Company to be held in 2008 and at every third annual meeting of the Company thereafter. If shareholder reconfirmation is not obtained, the Rights Plan will terminate and all rights then outstanding shall terminate and be void. The rights can be redeemed for $0.00001 per right at any time prior to a non-permitted bid or upon the successful completion of a permitted bid.

f) Earnings Per Share

Basic earnings (loss) per share has been calculated using the weighted average number of common shares outstanding for the year ended September 30, 2005 of 59,835,356 (2004 - 59,835,356). Diluted loss per share for the year ended September 30, 2005 has not been reflected as the effect would be anti-dilutive.

14. CONTRIBUTED SURPLUS

		2005		2004
Balance, beginning of year	**$**	**15,530,208**	$	15,530,208
Imputed stock option compensation		**194,111**		-
Balance, end of year	**$**	**15,724,319**	$	15,530,208

15. WRITE-DOWNS AND RECOVERIES

Each asset classified as an "asset held for disposal by sale" is reviewed at the time of reclassification to determine if its carrying value is greater than the expected fair value less costs to sell. To the extent an excess exists, the asset is written down with the write-down included in "discontinued operations" in the statement of earnings and deficit. Subsequently, at year end such assets are reviewed to determine if their fair value less costs to sell has changed, and to the extent a material change has occurred either a further write-down or a recovery of the prior write-down is recorded, with the said adjustment reflected in the "discontinued operations" category in the statement of earnings and deficit. Write-downs of assets not categorized as "assets held for disposal by sale" are reflected as a separate expense category in the statement of earnings and deficit.

15. WRITE-DOWNS AND RECOVERIES (continued)

The write-downs and recoveries, in addition to the write-downs described in Note 16, by category are:

Year ended September 30		2005		2004
Write-downs:				
Property and equipment	$	-	$	1,089,535
Short-term investments		175,800		-
Accounts and notes receivable		-		513,233
Long-term investments		-		2,347,282
	$	175,800	$	3,950,050
Recoveries:				
Accounts and notes receivable		-		5,423,453
Newmex transactions		351,173		-
TCS		243,580		-
	$	594,753	$	5,423,453

Newmex
On March 23, 2005 Newmex Minerals Inc. ("Newmex") issued 16,050,000 common shares through a private placement. As a result thereof, and together with the cancellation of the Newmex "escrowed shares", the Company's common shareholding in Newmex decreased to 13.94%. The Company also committed to sell 2.5 million of the shares it held in Newmex to one or more of the Newmex private placement share subscribers (see below), which reduced the Company's common shareholding in Newmex to 2.44%. Effective March 23, 2005, Newmex was therefore no longer considered to be a subsidiary of the Company, and accordingly, the Company no longer included the financial position, results of operations, and cash flows of Newmex in the Company's consolidated financial statements.

In accordance with the Company's accounting policies, investments in shares of public companies not recorded as current assets are carried at cost, unless there is a decline in the value of the investment that is considered to be other than temporary, in which case the investment is written down to its estimated net realizable amount. Therefore, the Company wrote down its investment in Newmex common shares by $899,752, with the resulting carrying cost of its investment in Newmex common shares at March 31, 2005 being the sum of: (a) the price the Company had committed to sell the aforementioned 2.5 million common shares in Newmex ($0.055 per share, being the private placement issuance price per share), and (b) the quoted market price at March 31, 2005 of the remaining 531,220 Newmex common shares held by the Company ($0.60 per share).

Effective March 24, 2005, the Company settled the indebtedness Newmex owed to the Company, which debt settlement resulted in the Company receiving $125,000 cash and 2,233,043 common shares of Golden Phoenix Minerals Inc., a US public company. The Company recorded its investment in these aforesaid shares at the trading price for these shares at the close of trading on March 23, 2005 translated into Canadian dollars at the closing rate of exchange on March 23, 2005 as quoted by the Bank of Canada. The debt settlement resulted in a loss to the Company of $988,157.

As described above, the private placement of common shares by Newmex has resulted in Newmex no longer being considered a subsidiary of the Company and therefore effective March 23, 2005, the Company did not include Newmex in the Company's consolidated financial statements. The "deconsolidation" of Newmex resulted in a gain as Newmex had an accumulated deficit. The net effect of the aforesaid Newmex transactions is summarized below and the net effect has been included in the summary table above:

Gain on deconsolidation	$	2,239,082
Loss on debt settlement		(988,157)
Loss on write-down of investment		(899,752)
	$	351,173

At September 30, 2005, the Company has disposed of all of the Newmex common shares previously held by it, and the net gain on disposition has been included in the gain on sale of assets in the statement of earnings and deficit.

TCS
The $243,580 noted above as a recovery represents the $200,000 US the Company received from TCS Mortgage Inc., referred to in Note 9.

16. DISCONTINUED OPERATIONS

The Company has determined that the operations of the businesses or components of businesses that constitute "components of an enterprise" as defined by section 3475 of the CICA Handbook, that were sold during the year or classified as held for disposal by sale at year end (Note 10) have been or will be eliminated from the Company's ongoing operations as a result of these sales. The Company has also determined that it will have no continuing involvement in the operations of these businesses after completion of the sale. Therefore, the Company reclassified as discontinued operations, the operating results of these businesses. The comparative operating results are also reclassified to reflect the operating results of the discontinued operations separately in the comparative period. Results of operations for subsidiaries disposed during the year are included in the discontinued operations results up to the date of disposition.

(i) Dispositions that occurred during the twelve months ended September 30, 2005 are:

a) Bancroft Commercial Plaza and Land
In October 2004 the Company closed the sale of its Bancroft commercial plaza and remaining land for gross sale proceeds of $750,000. The title to the commercial plaza was transferred to the purchaser in October 2004 with title to the remaining land transferred in December 2004 upon the rezoning of the land.

b) Thunder Bay Golf Dome
Effective May 31, 2005 the Company sold its subsidiary company ("Sub") which owned and operated a golf dome in Thunder Bay, Ontario. The Company received no net sale proceeds from the sale of the Sub. The operations of the golf dome for the eight month period ended May 31, 2005 (see below), including a write-down of $68,705, are included in the Company's fiscal 2005 loss. The accumulated net loss on disposition of the golf dome is $546,244, being the Company's losses on its share investment ($75,999) and on its forgiveness of debt ($470,245). Of the aforesaid accumulated loss, $315,147 is the net amount reflected in the Company's current fiscal 2005 operations as the balance was included in the prior years' consolidation of the Sub.

c) Family Golf Acquisitions Inc. - adjustment
The Company has reflected a $200,000 reversal of sale proceeds received in a prior year relating to the disposition of Family Golf Acquisitions Inc. This $200,000 was previously held in trust for any re-adjustment, if necessary, of the closing adjustments.

Summary of dispositions for the year ended September 30, 2005:

	Bancroft	Golf Dome	Family Golf Acquisition Inc.	Total
Net assets disposed:				
Capital and other non-current assets	$ 654,964	$ -	$ -	$ **654,964**
Shares and loans	-	-	-	**-**
	654,964	-	-	**654,964**
Proceeds on disposition:				
Cash	750,000	-	(200,000)	**550,000**
Costs of disposition	(113,185)	-	-	**(113,185)**
Net Proceeds	636,815	-	(200,000)	**436,815**
Loss on disposition	$ (18,149)	$ -	$ (200,000)	$ **(218,149)**

(ii) Results of Operations for discontinued operations for the year ended September 30, 2005:

	Bancroft	Golf Dome	Family Golf Acquisition Inc.	Total
Revenues	$ -	$ 350,175	$ -	$ **350,175**
Cost of Sales	-	477,540	-	**477,540**
General and administrative	6,013	43,076	-	**49,089**
Interest	-	-	-	**-**
Depreciation and amortization	-	-	-	**-**
Write-downs	-	68,705	-	**68,705**
	6,013	589,321	-	**595,334**
Net loss before loss on disposition and income taxes	(6,013)	(239,146)	-	**(245,159)**
Income taxes	-	-	-	**-**
Net operating loss	(6,013)	(239,146)	-	**(245,159)**
Loss on disposition	(18,149)	-	(200,000)	**(218,149)**
Net loss from discontinued operations	$ (24,162)	$ (239,146)	$ (200,000)	$ **(463,308)**

16. DISCONTINUED OPERATIONS (continued)

(iii) Results of Operations for discontinued operations for the year ended September 30, 2004:

	Family Golf Acquisitions Inc.	Canadian Rocky Mountain Properties Inc.	Qualicum Heritage Inn	Kananaskis Properties	Pebble Beach Apart-ments Inc.	Spring Bank Airport	Bancroft (1)	IMAX	Eau Claire Festival Market	Willow Creek Homes	Golf Dome (1)	Total
Revenues	$ 1,057,444	-	476,626	1,876,334	139,946	4,043	140,004	733,864	5,280,009	306,663	499,618	$ 10,514,551
Cost of sales	1,181,135	-	415,185	1,186,030	47,753	25,910	118,035	179,956	2,492,872	188,346	654,863	6,490,085
General and administrative	229,964	-	196,897	890,955	8,036	-	-	723,934	654,472	216,400	-	2,920,658
Interest on long term debt	19,549	-	22,368	71,032	79,842	-	16,779	-	1,498,508	-	33	1,708,111
Depreciation and amortization	105,945	-	16,189	192,060	-	3,841	37,887	-	622,727	6,140	5,897	990,686
Write-downs	-	-	240,000	-	-	180,000	616,000	-	735,000	244,630	-	2,015,630
	1,536,593	-	890,639	2,340,077	135,631	209,751	788,701	903,890	6,003,579	655,516	660,793	14,125,170
Net earnings (loss) before gain (loss) on disposition and income taxes	(479,149)	-	(414,013)	(463,743)	4,315	(205,708)	(648,697)	(170,026)	(723,570)	(348,853)	(161,175)	(3,610,619)
Income taxes	-	-	-	-	-	-	-	-	-	-	-	-
Net operating earnings (loss)	(479,149)	-	(414,013)	(463,743)	4,315	(205,708)	(648,697)	(170,026)	(723,570)	(348,853)	(161,175)	(3,610,619)
Gain (loss) on disposition	371,759	2,496,283	5,363	374,217	(865,712)	(13,345)	853,874	-	(8,948)	(47,570)	-	3,165,921
Net earnings (loss) from discontinued operations	$ (107,390)	2,496,283	(408,650)	(89,526)	(861,397)	(219,053)	205,177	(170,026)	(732,518)	(396,423)	(161,175)	(444,698)
Reversal of accounts payable (2)												783,773
												$ 339,075

(1) Includes operations, which based upon 2005 activities, have been reclassified to provide comparative information on discontinued operations for 2004.

(2) Previously recorded accounts payable relating to operations which the Company has disposed of or have been discontinued have been reversed, as the Company no longer has any such obligation. The reversals primarily relate to the Company's U.S. subsidiaries.

17. INCOME TAXES

The income tax provision reflects an effective tax rate that differs from the expected tax rate as summarized below:

		2005		2004
Expected tax (recovery) at 39.225% (39.225% for 2004)	$	**(1,160,948)**	$	2,453,843
Exempt portion of capital loss (gain)		**13,725**		(85,974)
Benefit of utilization of tax losses of previous years		**-**		(4,218,886)
Valuation adjustments		**(2,324,296)**		(4,973,601)
Adjustment to future tax assets and liabilities for enacted tax rates		**-**		626,410
Tax losses of current year of continuing operations not recognized for accounting purposes		**3,395,674**		2,767,360
Tax losses of current year of discontinued operations not recognized for accounting purposes		**75,967**		3,398,522
	$	**122**	$	(32,326)

The tax effects of temporary differences that give rise to future tax balances at September 30 are presented below:

		2005		2004
Future tax assets:				
Capital loss carry forwards	$	**132,993**	$	-
Mining properties and deferred costs		**-**		1,188,418
Capital assets and other assets		**335,201**		1,343,821
Operating loss carry forwards		**38,554,734**		33,645,551
Total gross future income tax assets		**39,022,928**		36,177,790
Valuation allowance		**(39,022,928)**		(36,177,790)
Net future income tax liability	$	**-**	$	-

As at September 30, 2005, the Company has accumulated non-capital loss carryforwards for tax purposes of approximately $73.7 million in Canada and US $29.9 million in the U.S., which can be applied to reduce income taxes otherwise payable. A valuation allowance has been recorded against the future tax assets, as the Company cannot demonstrate that it is more likely than not that these assets will be realized by the application of these losses to reduce or eliminate taxes on taxable income during the carryforward periods.

The losses expire as follows:

		Canada (CND $)		U.S. (US $)
2006	$	200,000	$	-
2007		-		3,000,000
2008		2,900,000		3,300,000
2009		27,800,000		2,300,000
2010		17,400,000		1,600,000
2011		-		1,500,000
2014		18,000,000		-
2015		7,400,000		-
Thereafter to 2025	$	-	$	18,200,000

18. COMMITMENTS

The Company has leased office space under a lease which was amended on May 25, 2005 resulting in the expiry being extended to December 31, 2006. The lease contains an early termination clause whereby after April 30, 2006 either the landlord or the Company can cancel the lease upon ninety days prior written notice. The estimated cost remaining under the lease obligation reflected in the commitment table below assumes no early termination.

A summary of the Company's above commitment for the next five calendar years is:

		Operating Lease
2005	$	117,492
2006		29,373
2007		-
2008		-
2009		-
thereafter		-
	$	146,865

19. FINANCIAL INSTRUMENTS

Risk Management
The Company does not utilize derivative financial instruments to manage various types of risks. The Company is exposed to the following risks related to financial assets and liabilities:

(i) Interest Rate Risk

The Company maintains its short-term deposits in instruments that are redeemable after 30 days without penalty, thereby reducing its exposure to interest rate fluctuations thereon. The majority of the Company's loans receivable are for terms not exceeding one year, which reduces the Company's exposure to interest rate fluctuations on the loans. At September 30, 2004 the long-term debt obligation of the Company had a maturity of less than one year and was subject to annual renewal. While this reduced the risk associated with interest rate decreases it did increase the risk associated with interest rate increases, which in light of the amount of the long-term debt at September 30, 2004, was not considered a material exposure. Interest rate risks on any of the Company's other obligations at September 30, 2005 are not considered material.

(ii) Credit Risk

Credit risk arises from the possibility that the entities to which the Company has provided loans may experience difficulty and be unable to fulfill their obligations. The Company mitigates this risk of credit loss through the diversification of its existing portfolio, limiting its exposure to any one entity, and securitizing its loans. Credit assessments were conducted in respect of new entities/borrowers.

Accounts receivable and loans and notes receivable are assessed on a regular basis by management to ensure the creditworthiness of debtors and the ultimate collection thereof.

(iii) Foreign Exchange Risk

The Company is exposed to risks arising from fluctuations in foreign currency exchange rates and the volatility of those rates. At September 30, 2005 the Company's primary exposures related to U.S. dollars held on deposit and advances to U.S. subsidiaries and entities.

(iv) Fair Value

The fair value of the majority of the Company's financial assets and liabilities approximate their recorded values at September 30, 2005, as the fair value is determined to be the market or exchange value of the assets or liabilities. Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect estimates.

19. FINANCIAL INSTRUMENTS (continued)

(v) Summary of Significant Financial Instruments

The significant financial instruments of the Company, their carrying values and the exposure to US dollar denominated monetary assets and liabilities, as of September 30, 2005 are as follows:

	Total	US $ Denominated
Cash and short-term deposits	$ 13,979,830	$ 5,099,967
Accounts receivable, trade	2,326,290	100,000
Loans and notes receivable	11,310,880	-
Accounts payable and accrued liabilities	1,410,598	365,149
Notes payable	872,019	190,951

20. LITIGATION AND CONTINGENCIES

The Company assesses each lawsuit on an action by action basis as to the probability that the claim will be successful. Claims are not reflected as an asset or liability or an expense or recovery in the consolidated financial statements until such time as there is a high degree of probability that the claim will be successful, taking into consideration all avenues of appeal and settlement. In addition to the matters referred to in (k) below, the litigation and contingencies are:

(a) The Lodge at Waterton Lakes

The Company's subsidiary, The Lodge at Waterton Lakes Inc., and The Lodge at Waterton Lakes Limited Partnership (collectively "Waterton"), that owned and operated the hotel was sued by the Royal Trust Corporation of Canada ("Royal Trust") for foreclosure on its first mortgage, which foreclosure was granted by judicial sale. Also named in the lawsuit were certain guarantors of the loan secured by this mortgage. These guarantors have alleged that the Company assumed their obligations pursuant to the guarantees. The Company believes it has valid defenses to this claim.

In January 2005 Royal Trust served notice that it intended to amend its statement of claim by adding the Company as a defendant. Royal Trust seeks to recover $2,814,969 (being the claimed shortfall between the net proceeds from the judicial sale and the outstanding debt secured by the property) plus additional interest and costs from the defendants, on a joint and several basis. In October 2005 the Alberta Court of Queen's Bench gave an order allowing Royal Trust to amend its statement of claim to add the Company as a defendant. The Company has appealed this order and the appeal hearing is expected to take place in February 2006. If the appeal is dismissed, Royal Trust's claim will proceed against the Company as well as the other named defendants. Although the Company believes it has valid defenses, if Royal Trust's claim is allowed, the likely outcome of this claim cannot reasonably be determined at this time.

(b) Waterton

The original unit-holders and shareholders of Waterton commenced an action against the Company and Waterton for non-performance on the $650,000 third mortgage incurred on the acquisition of Waterton. While the Company believes it has valid defenses to this claim, the principal amount of the third mortgage is still recorded as a note payable (see Note 11).

(c) Mr. Theodor Hennig

Mr. Hennig was formerly the Chief Financial Officer of the Company and its publicly traded subsidiaries, Canadian Rocky Mountain Properties Inc. ("CMP") and Newmex Minerals Inc. Mr. Hennig initially took a leave of absence but after further allegations were brought forward against him by the Alberta Securities Commission, his employment was terminated by the Company. The Company believes that it had cause to terminate Mr. Hennig's employment. On August 21, 2002, Mr. Hennig was one of several parties subject to an interim Cease Trade Order in securities and this order was extended on September 5, 2002 and remains in effect to the date of these financial statements. Mr. Hennig attempted to exercise 50,000 stock options of CMP in September of 2002. CMP declined the request on the basis that it would have violated securities laws as a result of the cease trade order in effect. In 2003 Mr. Hennig brought an action for damages, including punitive damages, in the amount of $50,000 against CMP and Proprietary, resulting from the failure of CMP to issue the shares. The Company has agreed to indemnify the purchaser of CMP for any losses in respect of this claim. On June 18, 2004, the Court ruled in favor of Mr. Hennig's motion for summary judgment and ordered CMP to issue 50,000 shares of CMP upon receipt of $37,500 from Mr. Hennig. The Company filed an appeal of the Court's decision. Pursuant to the indemnity the Company provided to CMP, the Company paid an amount into trust to provide for damages payable to Mr. Hennig, should the appeal be unsuccessful. This payment has been reflected as an expense in the fiscal 2005 consolidated financial statements. On June 22, 2005, the Court of Appeal dismissed the Company's appeal. The Company will not pursue further appeals.

20. LITIGATION AND CONTINGENCIES (continued)

(d) Mr. Peter Workum, Mr. Theodor Hennig, Cheshire Capital Inc., Lexington Capital Ltd., Ashland Holdings Corp., Strategic Investments Fund, Mr. Pedro Wick and Mr. Gilbert Schoeni, Officers of Cofima Finanz AG

The Company commenced an action in Alberta against these parties alleging a breach of fiduciary duty, undisclosed and improper payment of commissions to offshore companies beneficially owned and controlled by the then executive officers of the Company, breach of trust, negligence, loss of reputation, and debt. The claim seeks an accounting and judgment against the defendants for the full amount of such commissions, general damages in the amount of $5 million, repayment of the debt, and punitive damages of $1 million together with interest and costs. A Partial Default Judgment was entered in April 2003 against Ashland, Strategic, Cheshire, Lexington, as well as Messrs. Wick and Schoeni. In May 2004 the Company received $382,819 representing some of the proceeds from the aforesaid Partial Default Judgment. A Further Partial Default Judgment was entered in June 2005. The Company has calculated it should collect a further $1,884,399 from the enforcement of these Partial Default Judgments, which amount it recorded as an account receivable as at September 30, 2005 (on November 14, 2005 it received an initial payment of $1,690,840). The Company may also receive additional proceeds from the disposition of securities each of these aforesaid companies hold if further partial default judgments are granted. Subsequent to year end, a Calgary law firm purporting to act for three of the offshore companies filed a motion to set aside the judgments. The Company has disputed the law firm's authority to act for the offshore companies.

In addition, the Company's US subsidiary, EnerGCorp, Inc., has filed a claim against Mr. Workum in Arizona alleging that Mr. Workum received unauthorized sums from EnerGCorp, Inc. and directed EnerGCorp, Inc. to pay his personal expenses.

The litigation involving Mr. Workum is complex due to the number of jurisdictions involved. The commissions paid to an entity or entities believed to be controlled by Mr. Workum individually or together with Mr. Hennig totaled approximately $5,100,000 for the period July 2, 1998 through September 9, 2001. In addition, management is of the opinion that Mr. Workum and entities believed to be in his control owe the Company and its subsidiaries $4,122,641 in outstanding loans and advances. Mr. Workum was also the recipient of a payment of $302,731 during the year ended September 30, 2002 from the Company's profit sharing plan. It is management's opinion that these amounts should be recoverable as the restated financial statements have shown that no profits were available for distribution under the plan.

Mr. Workum filed a counterclaim in Arizona against the Company, EnerGCorp, Inc. and several individuals who previously acted as directors or officers of the Company or of the Company's subsidiaries. His counterclaim was for, among other things, breach of contract, unpaid wages, wrongful termination, tortuous interference and defamation. The Company's motion to strike the counterclaim was successful. The Arizona Court gave Mr. Workum until August 15, 2004 to re-file his counterclaim, which he did, claiming similar relief against a number of parties. The Company may be responsible for the costs of defending the counterclaim against some of these parties.

In May 2004 Mr. Workum filed a claim in Arizona court against certain former and present directors and/or officers of the Company. After granting a motion to dismiss the claim, on April 20, 2005, the Arizona court entered a judgment in favor of the individuals and against Mr. Workum. On May 3, 2005, Mr. Workum filed another claim in British Columbia against the Company, certain former and present directors and officers of the Company, and third parties. The Company has filed a Statement of Defense as well as a motion to strike the claims. In September of this year, the court granted the Company's motion to strike Mr. Workum's claims. Mr. Workum has appealed this decision. It is likely that the appeal will be heard in mid-2006. The Company believes that Mr. Workum's claims are without merit and that the appeal will be dismissed.

Mr. Hennig has also filed a counterclaim against the Company in Alberta seeking damages for wrongful dismissal of $475,000, unspecified damages representing the loss of employment benefits for a period of twenty-four months, $777,000 in unpaid salaries for 2000 and 2001, and other damages in the amount of $800,000 plus interest and costs. Mr. Hennig's claim for salary is in addition to consulting fees of $315,670 paid to his professional corporation during the period in question and the commissions referred to above paid to an entity or entities believed to be controlled by Mr. Workum and Mr. Hennig. Mr. Hennig also received payment from the Company's profit sharing plan during the year-ended September 30, 2002 in the amount of $274,262. It is management's opinion that these amounts are recoverable from Mr. Hennig as the restated financial statements demonstrate that no profits were realized.

Mr. Workum has also filed a counterclaim in Alberta seeking a "make-up payment" for unpaid compensation of $3,050,000, comprised of salary arrears of $500,000 and 500,000 shares of the Company, damages for wrongful dismissal of $600,000, and other damages in excess of $1,000,000.

The Company is of the opinion that the counterclaims made by Mr. Workum and Mr. Hennig are without merit. The Company will vigorously defend its position. The outcome of these actions cannot be reasonably determined.

20. LITIGATION AND CONTINGENCIES (continued)

(e) Sulphur Corporation of Canada Ltd. ("Sulphur")

Sulphur was previously placed under the protection of *The Company Creditors Arrangement Act* ("CCAA") and the Company was required to cover the costs of the CCAA actions. The total estimated net outstanding liabilities of Sulphur at the time exceeded $8 million. CCAA proceedings have not been pursued and neither Sulphur nor any creditor has taken formal steps to put Sulphur into bankruptcy. The Company appointed a receiver under its security over the assets of Sulphur. The Company has been successful in recovering, in proceedings against the previous management of Sulphur, sufficient funds to pay the costs outstanding that were associated with the CCAA action as well a modest amount of money for the Company's benefit under the security that it held over the assets of Sulphur.

In October 2004 the Company was served with a Writ of Summons and Statement of Claim filed in the Supreme Court of British Columbia by F & M Installations Ltd. ("F & M"). F & M is claiming $3.9 million plus damages from the Company in respect of services performed by F & M for Sulphur (now in receivership). On the basis of the information currently available to the Company, it believes that this claim is without merit and it will defend this position. The outcome of this matter cannot be determined at this time.

(f) International Commodity Logistics Inc., William Gartner and Norman Thiede

This was a claim for breach of contract and/or breach of duty of care. The plaintiffs alleged that the defendants (which included the Company) breached their duty to them by failing to make investments in Sulphur (in which the plaintiffs were shareholders). Sulphur is now in receivership. The plaintiffs sought $20 Million. An amended statement of claim was filed on March 1, 2004, which was not served. The Company has now been successful in having the action discontinued and has received appropriate releases from the plaintiffs.

(g) Global Hydrocarbon Corporation and Roderick Mackenzie

This was a claim for breach of contract and/or breach of duty of care. The plaintiffs alleged that the defendants (which included the Company) breached their duty to them by failing to make investments in Sulphur (in which the plaintiffs were shareholders). Sulphur is now in receivership. The plaintiffs sought $2 Million. A statement of claim was filed on March 2, 2004, which was not served. The Company has now been successful in having the action discontinued and has received appropriate releases from the plaintiffs.

(h) Chateau Hotels

The Company previously had loaned $582,419 to Chateau Hotels and Resorts Inc. ("Chateau") (see Note 5). A company related to Chateau is claiming that it is owed a total of approximately $900,000 for services performed pursuant to an oral agreement. The company related to Chateau has requested payment of the balance and the Company's management has refused. The company related to Chateau has filed a statement of claim and the Company has filed a claim against Chateau for the balance of the note plus interest. The outcome of this matter is not determinable at this time.

(i) COFIMA Finanz AG

COFIMA Finanz AG ("COFIMA") alleged that they acted as the Company's agent in connection with several financings previously completed on a private placement basis. COFIMA demanded payment for unpaid commissions related to several financings completed from October 5, 1999 through December 13, 2001. It has claimed that it is owed up to $500,000 in commissions in connection with the financings. COFIMA has admitted that many things were agreed on verbally and that it was agreed that COFIMA would receive three offshore companies (holding securities and cash) in lieu of consideration for the above commissions. The Company does not own any offshore companies. COFIMA owes the Company $906,645 plus interest. Management has learned that COFIMA is bankrupt and is no longer carrying on business. Accordingly, the Company has included this receivable in its provision for uncollectible amounts (see Note 3(A)). It is the Company's opinion that COFIMA's claim is without merit. The outcome of this matter is not determinable at this time. Additionally, the Company has filed a Statement of Claim in Alberta with respect to the funds it is owed by COFIMA. This statement of claim was allowed to lapse before being served given that it was unlikely that a judgment, if obtained, could be satisfied due to COFIMA's status.

20. LITIGATION AND CONTINGENCIES (continued)

(j) Hudson & Company et al ("Hudson")

The Company brought an action in September 2003 against Hudson, the former auditors of the Company, alleging breach of contract, negligence, and breach of statutory duty in the performance of its audit of the Company's financial statements for the fiscal years 1998 to 2001, inclusive. Hudson is defending this claim and has brought a third party action against Peter Workum, the Company's former CEO, and Theodor Hennig, the Company's former CFO. Theodor Hennig and Peter Workum are defending the third party claim. The Company intends to vigorously pursue its claims against Hudson.

(k) Settled Litigation

In December 2004 the Company reached a settlement with United Industrial Services Inc. et al of litigation for $1.79 million.

(l) Provisions for uncollectible amounts

The Company is pursuing collection on all amounts due as described in Notes 3 and 5 to the extent practical. Any recovery will be recognized as income in the year of collection.

(m) Directors and officers contingency

The Company has provided indemnity agreements to its present and certain former officers and directors, and as well, has provided indemnification to its directors, officers and employees pursuant to the Company's by-laws and the *Canada Business Corporations Act*. In furtherance of the Company's indemnification to certain present and former directors and officers against claims and liabilities that may arise as a result of their association with the Company, the Company has put $5 million into a trust account, which account and funds are subject to an agreement as to their utilization. These funds are included in the restricted cash deposits in the consolidated balance sheet (see Note 6).

21. CHANGES IN NON-CASH BALANCES RELATED TO OPERATIONS

Year ended September 30,	2005	2004
Accounts receivable	$ **(1,912,387)**	$ 437,782
Inventories	**24,884**	518,434
Prepaid expenses and deposits	**(29,860)**	290,623
Restricted cash, net	**(32,371)**	(4,279,012)
Other assets	**-**	77,006
Loans and notes receivable	**(57,867)**	-
Accounts payable and accrued liabilities	**(3,251,951)**	(3,348,271)
Customer deposits	**(5,155)**	(276,173)
Income taxes payable	**(15,086)**	(132,595)
Deferred revenue	**284,425**	(242,492)
	$ **(4,995,368)**	$ (6,954,698)

22. SUBSEQUENT EVENTS

Due to the low volume of the Company's shares trading on the Swiss Exchange, the Company requested and subsequently received approval on November 8, 2005 for the de-listing of its shares on the Swiss Exchange. Accordingly, the Company's shares will be de-listed from the Swiss Exchange on February 9, 2006 with the last day of trading on the Swiss Exchange being February 8, 2006.

On November 14, 2005 the Company received a payment of $1,690,840 in connection with the litigation referred to in Note 20(d).

The Company has agreed to sell a vacant piece of land it owns in Phoenix, Arizona, with the closing of the sale scheduled for December 15, 2005. The Company expects to realize net proceeds of approximately $417,000 US.

23. SEGMENTED INFORMATION

Most of the Company's operations comprising separate business segments in prior periods have been disposed of and are now reflected in discontinued operations. The rental income derived from the McGinty Landing condos does not represent an operating segment. Accordingly, the Company has only one reportable business segment, that being its operations as a merchant bank. The Company's operations are carried on in the following geographic locations:

		2005				
		Canada		USA		Consolidated
Total revenues	$	**4,510,743**	$	**415,299**	$	**4,926,042**
Operating profit (loss)		(144,749)		(2,639,942)		(2,784,691)
Amortization		110,169		-		110,169
Interest expense		20,585		563		21,148
Write-downs (recoveries)		(175,373)		(243,580)		(418,953)
Income (loss) before income taxes and non-controlling interest		(100,130)		(2,396,925)		(2,497,055)
Income taxes and non-controlling interest		-		122		122
Discontinued operations income (loss)		(463,308)		-		(463,308)
Net income (loss)	$	(563,438)	$	(2,397,047)	$	(2,960,485)
Identifiable assets	$	32,685,523	$	642,896	$	33,328,419
Capital assets	$	221,387	$	-	$	221,387

		2004				
		Canada		USA		Consolidated
Total revenues	$	6,047,942	$	6,242,495	$	12,290,437
Operating profit		586,069		10,487,077		11,073,146
Amortization		263,233		53,642		316,875
Interest expense		171,510		217,722		389,232
Write-downs (recoveries)		3,436,817		513,233		3,950,050
Income (loss) before income taxes and non-controlling interest		(3,285,491)		9,702,480		6,416,989
Income taxes and non-controlling interest		(591,385)		479,697		(111,688)
Discontinued operations income (loss)		404,129		(65,054)		339,075
Net income (loss)	$	(2,289,977)	$	9,157,729	$	6,867,752
Identifiable assets	$	38,672,389	$	1,074,974	$	39,747,363
Capital assets	$	963,382	$	-	$	963,382

Corporate Information

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William H. Berezan
Chief Financial Officer

Shirley J. Farr
Corporate Secretary

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